

TOWN OF MILFORD, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2002
and
INDEPENDENT AUDITOR'S REPORT

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	Page(s) 86
GENERAL PURPOSE FINANCIAL STATEMENTS	
EXHIBITS:	
A Combined Balance Sheet - All Fund Types and Account Groups	87
B Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental and Similar Trust Fund Types	89
C Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – Budgetary Basis - General Fund	91
D Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances - All Proprietary Fund Types and Similar Trust Funds	93
E Combined Statement of Cash Flows - All Proprietary Fund Types and Similar Trust Funds	95
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS	98

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INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen
Town of Milford, New Hampshire

We have audited the accompanying general purpose financial statements of the Town of Milford, New Hampshire, as of and for the year ended December 31, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Town of Milford, New Hampshire's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully described in Note 1, the general purpose financial statements referred to above do not include the financial statements of the General Fixed Asset Account Group, which should be included in order to conform with accounting principles generally accepted in the United States of America. The amount that should be recorded in the General Fixed Asset Account Group is not known.

As described in Note 1, the Town has recognized tax revenues of \$1,132,794 in its General Fund which were not received in cash within sixty days of year end as required by generally accepted accounting principles (GASB Interpretation 3). Town officials believe, and we concur, that the application of this accounting principle, which would result in a decrease in the undesignated General Fund balance from \$1,823,255 to \$690,461, would give a misleading impression of the Town's ability to meet its current and future obligations.

In our opinion, except for the effect on the general purpose financial statements of the omission described in the third paragraph, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Town of Milford, New Hampshire as of December 31, 2002, and the results of its operations and the cash flows of its proprietary fund types and non-expendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statement and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Town of Milford, New Hampshire. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

March 26, 2003

Vachon, Clukay & Co., PC

EXHIBIT A

TOWN OF MILFORD, NEW HAMPSHIRE

Combined Balance Sheet - All Fund Types and Account Groups

December 31, 2002

	Governmental Fund Types		Proprietary Fund Types	Fiduciary Fund Types	Account Group	Totals (Memorandum Only)	
	General	Special Revenue	Enterprise	Trust & Agency	General Long- Term Debt	2002	2001
ASSETS							
Cash	\$ 7,585,494	\$ 76,506		\$ 22,426		\$ 7,684,426	\$ 9,309,921
Investments	3,005,656	29,118		3,366,458		6,401,232	3,671,777
Taxes receivable, net	1,947,865					1,947,865	2,349,121
Accounts receivable, net	99,205	2,282	\$ 120,408	780		222,675	146,926
Notes receivable	-					-	13,420
Due from other governments	4,500	27,550	21,402			53,452	71,752
Prepaid expenses	248,575		315			248,890	74,065
Inventory			74,565			74,565	69,965
Due from other funds	107,717	233,687	1,768,603			2,110,007	1,919,520
Restricted assets	517,665					517,665	220,143
Property, plant and equipment, net			19,855,885			19,855,885	20,245,756
Amount to be provided for retirement of general long-term obligations					\$ 4,213,260	4,213,260	4,088,403
Total Assets	<u>\$ 13,516,677</u>	<u>\$ 369,143</u>	<u>\$ 21,841,178</u>	<u>\$ 3,389,664</u>	<u>\$ 4,213,260</u>	<u>\$ 43,329,922</u>	<u>\$ 42,180,769</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 48,378	\$ 485	\$ 20,695			\$ 69,558	\$ 109,583
Accrued liabilities	133,125	1,255	49,356			183,736	221,998
Retainage payable			7,415			7,415	9,939
Deposits	517,665					517,665	220,143
Due to other funds	2,074,052	19,124		\$ 16,831		2,110,007	1,919,520
Due to other governments	8,371,641	17,260	7,137			8,396,038	7,315,524
Deferred revenue	394,372	154,306				548,678	626,581

Capital lease obligations payable		95,689		\$ 596,796	692,485	154,728
General obligation debt payable		1,346,000		3,525,000	4,871,000	5,439,500
Accrued compensated absences payable	56,000	34,221		91,464	181,685	179,661
Claims and judgments payable				-	-	11,806
Total Liabilities	<u>11,595,233</u>	<u>192,430</u>	<u>1,560,513</u>	<u>16,831</u>	<u>4,213,260</u>	<u>16,208,983</u>
Fund Equity:						
Contributed Capital		14,975,431			14,975,431	15,416,267
Appropriated retained earnings		93,190			93,190	
Retained earnings		5,212,044			5,212,044	4,761,857
Fund Balances:						
Reserved for endowments				2,507,573	2,507,573	2,755,910
Reserved for encumbrances	11,506				11,506	53,095
Unreserved:						
Designated	86,683	42,020		735,060	863,763	979,992
Undesignated	<u>1,823,255</u>	<u>134,693</u>		<u>130,200</u>	<u>2,088,148</u>	<u>2,004,665</u>
Total Fund Equity	<u>1,921,444</u>	<u>176,713</u>	<u>20,280,665</u>	<u>3,372,833</u>	<u>-</u>	<u>25,971,786</u>
Total Liabilities and Fund Equity	<u>\$ 13,516,677</u>	<u>\$ 369,143</u>	<u>\$ 21,841,178</u>	<u>\$ 3,389,664</u>	<u>\$ 4,213,260</u>	<u>\$ 42,180,769</u>

EXHIBIT B

TOWN OF MILFORD, NEW HAMPSHIRE

Combined Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental and Similar Trust Fund Types

For the Year Ended December 31, 2002

	Governmental Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenue	Expendable Trust Funds	2002	2001
Revenues:					
Taxes	\$ 4,588,885			\$ 4,588,885	\$ 4,755,146
Licenses and permits	2,132,619	\$ 12,905		2,145,524	1,978,827
Intergovernmental revenues	1,009,125	99,483		1,108,608	1,197,189
Charges for service	546,363	64,953	\$ 16,918	628,234	614,251
Miscellaneous revenues	<u>259,500</u>	<u>477,010</u>	<u>(29,053)</u>	<u>707,457</u>	<u>517,870</u>
Total Revenues	<u>8,536,492</u>	<u>654,351</u>	<u>(12,135)</u>	<u>9,178,708</u>	<u>9,063,283</u>
Expenditures:					
Current:					
General government	2,568,571	42,069	13,292	2,623,932	2,439,102
Public safety	2,497,505	200,342		2,697,847	2,779,416
Highways and streets	842,736			842,736	810,250
Health and welfare	201,440	56,736		258,176	178,907
Sanitation	805,008	571		805,579	836,999
Culture and recreation	569,388	215,364	11,853	796,605	865,163
Capital outlay	964,869	255,500		1,220,369	434,881
Debt service	<u>706,002</u>			<u>706,002</u>	<u>722,543</u>
Total Expenditures	<u>9,155,519</u>	<u>770,582</u>	<u>25,145</u>	<u>9,951,246</u>	<u>9,067,261</u>
Excess of Revenues Over (Under) Expenditures	<u>(619,027)</u>	<u>(116,231)</u>	<u>(37,280)</u>	<u>(772,538)</u>	<u>(3,978)</u>

Other Financing Sources (Uses):

Proceeds of capital leases	771,130			771,130	16,298
Operating transfers in		78,121		78,121	180,702
Operating transfers out	<u>(149,883)</u>			<u>(149,883)</u>	<u>(203,360)</u>
Total Other Financing					
Sources (Uses)-Net	<u>621,247</u>	<u>78,121</u>	<u>-</u>	<u>699,368</u>	<u>(6,360)</u>
Excess of Revenues and Other					
Sources Over (Under)					
Expenditures and Other Uses	2,220	(38,110)	(37,280)	(73,170)	(10,338)
Fund Balances - January 1	<u>1,919,224</u>	<u>214,823</u>	<u>772,340</u>	<u>2,906,387</u>	<u>2,916,725</u>
Fund Balances - December 31	<u>\$ 1,921,444</u>	<u>\$ 176,713</u>	<u>\$ 735,060</u>	<u>\$ 2,833,217</u>	<u>\$ 2,906,387</u>
<i>See notes to financial statements</i>					

EXHIBIT C

TOWN OF MILFORD, NEW HAMPSHIRE

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Budgetary Basis - General Fund

For the Year Ended December 31, 2002

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 4,653,554	\$ 4,588,885	\$ (64,669)
Licenses and permits	1,945,350	2,132,619	187,269
Intergovernmental revenues	1,054,720	1,009,125	(45,595)
Charges for service	527,000	546,363	19,363
Miscellaneous revenues	<u>126,500</u>	<u>259,500</u>	<u>133,000</u>
Total Revenues	<u>8,307,124</u>	<u>8,536,492</u>	<u>229,368</u>
Expenditures:			
Current:			
General government	2,591,578	2,562,788	28,790
Public safety	2,612,782	2,499,903	112,879
Highways and streets	848,415	804,651	43,764
Health and welfare	119,414	201,440	(82,026)
Sanitation	718,560	804,889	(86,329)
Culture and recreation	580,857	569,388	11,469
Capital outlay	364,114	193,739	170,375
Debt Service	<u>693,672</u>	<u>706,002</u>	<u>(12,330)</u>
Total Expenditures	<u>8,529,392</u>	<u>8,342,800</u>	<u>186,592</u>
Excess of Revenues Over (Under) Expenditures	<u>(222,268)</u>	<u>193,692</u>	<u>415,960</u>
Other Financing Sources (Uses):			
Operating transfers out	<u>(149,883)</u>	<u>(149,883)</u>	<u>-</u>

Total Other Financing Sources (Uses)-Net	<u>(149,883)</u>	<u>(149,883)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(372,151)</u>	<u>43,809</u>	<u>415,960</u>
Fund Balance - January 1	<u>1,866,129</u>	<u>1,866,129</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 1,493,978</u>	<u>\$ 1,909,938</u>	<u>\$ 415,960</u>

See notes to financial statements

EXHIBIT D

TOWN OF MILFORD, NEW HAMPSHIRE

Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances

All Proprietary Fund Types and Similar Trust Funds

For the Year Ended December 31, 2002

	Proprietary Fund Types			Fiduciary Fund Types	Totals (Memorandum Only)	
				Non- Expendable Trust Funds	For the Years Ended December 31,	
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>		<u>2002</u>	<u>2001</u>
Operating Revenues:						
Intergovernmental revenues		\$ 25,578	\$ 25,578		\$ 25,578	\$ 786
Charges for service	\$ 965,185	1,269,743	2,234,928		2,234,928	2,022,542
Miscellaneous revenue		3,334	3,334		3,334	14,474
Investment income (loss)				\$ (184,388)	(184,388)	(97,026)
Total Operating Revenues	<u>965,185</u>	<u>1,298,655</u>	<u>2,263,840</u>	<u>(184,388)</u>	<u>2,079,452</u>	<u>1,940,776</u>
Operating Expenses:						
Personal services	233,119	580,213	813,332		813,332	724,476
Contractual services	210,584	103,185	313,769	74,327	388,096	602,945
Supplies	59,424	117,177	176,601		176,601	188,552
Utilities	67,162	110,026	177,188		177,188	195,995
Depreciation	149,933	518,460	668,393		668,393	663,901
Miscellaneous	<u>1,903</u>	<u>21,827</u>	<u>23,730</u>		<u>23,730</u>	<u>12,772</u>
Total Operating Expenses	<u>722,125</u>	<u>1,450,888</u>	<u>2,173,013</u>	<u>74,327</u>	<u>2,247,340</u>	<u>2,388,641</u>
Net Operating Income (Loss)	<u>243,060</u>	<u>(152,233)</u>	<u>90,827</u>	<u>(258,715)</u>	<u>(167,888)</u>	<u>(447,865)</u>
Non-Operating Revenues (Expenses):						
Interest, net	(28,490)	(34,691)	(63,181)		(63,181)	(37,508)
Bequests			-	9,213	9,213	14,894
Gain (loss) on disposition of assets		<u>(2,041)</u>	<u>(2,041)</u>		<u>(2,041)</u>	<u>(3,998)</u>
Total Non-Operating Revenues (Expenses)	<u>(28,490)</u>	<u>(36,732)</u>	<u>(65,222)</u>	<u>9,213</u>	<u>(56,009)</u>	<u>(26,612)</u>

EXHIBIT E

TOWN OF MILFORD, NEW HAMPSHIRE

Combined Statement of Cash Flows

All Proprietary Fund Types and Similar Trust Funds

For the Year Ended December 31, 2002

	<u>Proprietary Fund Types</u>			<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>	
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>	<u>Non- Expendable Trust Funds</u>	<u>2002</u>	<u>2001</u>
Cash Flows from Operating Activities:						
Cash received from services	\$ 943,767	\$ 1,244,715	\$ 2,188,482		\$ 2,188,482	\$ 2,025,087
Cash received from other governments		25,578	25,578		25,578	786
Cash received on trust investments			-	\$ 22,132	22,132	217,596
Cash paid to suppliers and employees	<u>(587,369)</u>	<u>(970,474)</u>	<u>(1,557,843)</u>	<u>(71,674)</u>	<u>(1,629,517)</u>	<u>(1,657,306)</u>
Net Cash Provided (Used) by Operating Activities	<u>356,398</u>	<u>299,819</u>	<u>656,217</u>	<u>(49,542)</u>	<u>606,675</u>	<u>586,163</u>
Cash Flows from Noncapital Financing Activities:						
Cash from other funds (net)	<u>71,762</u>		<u>71,762</u>		<u>71,762</u>	<u>22,658</u>
Net Cash Provided by Noncapital Financing Activities	<u>71,762</u>	<u>-</u>	<u>71,762</u>	<u>-</u>	<u>71,762</u>	<u>22,658</u>
Cash Flows from Capital and Related Financing Activities:						
Proceeds of long-term debt		49,470	49,470		49,470	658,398
Principal paid on long-term debt	(65,000)	(153,724)	(218,724)		(218,724)	(234,107)
Interest paid on long-term debt	(38,218)	(49,831)	(88,049)		(88,049)	(70,958)
Acquisition of fixed assets	(97,587)	(185,500)	(283,087)		(283,087)	(724,607)
Capital contributions		5,174	5,174		5,174	11,219
Bequests			-	9,213	9,213	14,895
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(200,805)</u>	<u>(334,411)</u>	<u>(535,216)</u>	<u>9,213</u>	<u>(526,003)</u>	<u>(345,160)</u>

Cash Flows from Investing Activities:

Net decrease in investment securities				184,995	184,995	(610,815)
Interest on investments	<u>6,604</u>	<u>12,023</u>	<u>18,627</u>		<u>18,627</u>	<u>40,899</u>
Net Cash Provided (Used) by Investing Activities	<u>6,604</u>	<u>12,023</u>	<u>18,627</u>	<u>184,995</u>	<u>203,622</u>	<u>(569,916)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	233,959	(22,569)	211,390	144,666	356,056	(306,255)

Cash and Cash Equivalents, January 1	<u>341,797</u>	<u>1,215,416</u>	<u>1,557,213</u>	<u>106,712</u>	<u>1,663,925</u>	<u>1,970,179</u>
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Cash and Cash Equivalents, December 31	<u>\$ 575,756</u>	<u>\$ 1,192,847</u>	<u>\$ 1,768,603</u>	<u>\$ 251,378</u>	<u>\$ 2,019,981</u>	<u>\$ 1,663,924</u>
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Reconciliation of Net Operating Income (Loss) to
Net Cash Provided by Operating Activities:

Net Operating Income (Loss)	\$ 243,060	\$ (152,233)	\$ 90,827	\$ (258,715)	\$ (167,888)	\$ (447,865)
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Adjustments to Reconcile Net Operating Income (Loss)
to Net Cash Provided by Operating Activities:

Depreciation	149,933	518,460	668,393		668,393	663,901
Unrealized loss on investments				206,520	206,520	314,621
Change in assets and liabilities:						
Decrease (increase) in accounts receivable	(21,418)	(13,310)	(34,728)		(34,728)	7,403
Decrease in due from other governments		(1,166)	(1,166)		(1,166)	(20,236)
Decrease (increase) in prepaid expenses	3,527	10,074	13,601		13,601	(13,370)
(Increase) decrease in inventory	(2,819)	(1,781)	(4,600)		(4,600)	9,692
Decrease in accounts payable	(255)	(584)	(839)		(839)	(8,553)
Increase (decrease) in accrued liabilities	(17,095)	(48,162)	(65,257)		(65,257)	71,342
Increase in due to other funds			-	2,653	2,653	4,413
Increase (decrease) in due to other governments		(13,886)	(13,886)		(13,886)	904
Increase in accrued compensated absences payable	<u>1,465</u>	<u>2,407</u>	<u>3,872</u>		<u>3,872</u>	<u>3,911</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 356,398</u>	<u>\$ 299,819</u>	<u>\$ 656,217</u>	<u>\$ (49,542)</u>	<u>\$ 606,675</u>	<u>\$ 586,163</u>

Noncash Transactions Affecting Financial Position:

Net (decrease) in fair value of investments				\$ (206,520)	\$ (206,520)	\$ (314,621)
Amortization of contributions in aid	<u>\$ 44,450</u>	<u>\$ 401,560</u>	<u>\$ 446,010</u>	<u>-</u>	<u>446,010</u>	<u>448,634</u>
Total Noncash Transactions Affecting Financial Position	<u>\$ 44,450</u>	<u>\$ 401,560</u>	<u>\$ 446,010</u>	<u>\$ (206,520)</u>	<u>\$ 239,490</u>	<u>\$ 134,013</u>

See notes to financial statements

TOWN OF MILFORD, NEW HAMPSHIRE
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
December 31, 2002

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Milford, New Hampshire conform to accounting principles generally accepted in the United States of America for local governmental units, except as indicated hereinafter. The following is a summary of significant accounting policies.

Financial Reporting Entity

The Town of Milford, New Hampshire (the "Town") was incorporated in 1794. The Town operates under the Town Meeting/Board of Selectmen form of government and provides local governmental functions as authorized by State law.

The accompanying financial statements of the Town present the financial position of the various fund types and account groups, the results of operations of the various fund types, and the cash flows of the proprietary fund types and similar trust fund types.

The financial statements include those of the various departments governed by the Board of Selectmen and other officials with financial responsibilities. The Town has no organizational units that meet criteria for inclusion in the financial statements as defined by the Governmental Accounting Standards Board.

Basis of Presentation - Fund Accounting

The accounts of the Town are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/retained earnings, revenues, and expenditures/expenses. Accordingly, interfund receivables and payables have not been eliminated.

Individual funds and account groups summarized in the accompanying financial statements are classified as follows:

Governmental Fund Types

Governmental funds are those through which most governmental functions of the Town are financed. The following are the Town's governmental funds:

General Fund - is the general operating fund of the Town. It is used to account for all revenues and expenditures that are not accounted for in other funds or as account groups.

Special Revenue Funds - used to account for specific restricted revenues and expenditures for various purposes. The Conservation Commission, Wadleigh Memorial Library, Fire Alarm Fund, Recreation Fund, and Miscellaneous Grants are accounted for as Special Revenue Funds.

Proprietary Fund Types

Proprietary Funds are used to account for the Town's ongoing activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows.

Enterprise Funds - These funds account for the operations of the Town's Water and Sewer Departments, which provide service on a user charge basis. The Town has the option of choosing whether or not to follow the FASB pronouncements issued subsequent to November 30, 1989 in accounting and reporting for its proprietary operations and has elected not to do so.

Fiduciary Funds

These funds are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations, and other governmental units, and/or other funds. Receipts and expenditures of each fund are governed by statutes, local law, or the terms of the gift.

Trust Funds - include non-expendable and expendable funds. Non-expendable funds are accounted for and reported as proprietary type funds since capital maintenance is critical. Expendable trust funds (Capital Reserve Funds, Wadleigh Memorial Library Expendable Trust and Riverside Lot Fund) are accounted for in essentially the same manner as governmental fund types.

Account Groups

Account groups are not funds; they do not reflect available financial resources and related liabilities, but are accounting records of general fixed assets and general long-term obligations. The following is a description of the account groups of the Town.

General Fixed Asset Account Group - The Town does not record the acquisition of fixed assets in the General Fixed Asset Account Group as required by accounting principles generally accepted in the United States of America. Fixed assets acquired or constructed for general government services are recorded as expenditures in the fund making the expenditures. Funds used to acquire general fixed assets and/or debt service payments on borrowings in connection therewith are accounted for as expenditures in the year payments are made. Public domain (infrastructure) general fixed assets consisting of roads and bridges are also not capitalized.

General Long-Term Debt Account Group - This group of accounts is used to account for all outstanding long-term obligations of the Town.

Basis of Accounting

Governmental funds utilize the modified accrual basis whereby revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred, if measurable.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of revenues. In one, monies must be expended on the specific purpose of the project before any amounts will be paid to the Town; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Licenses and permits, charges for service and miscellaneous revenues (except investment earnings) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are measurable and available. (See Property Taxes for property tax accrual policy.)

The accrual basis is used for all proprietary fund types and non-expendable trust funds. The measurement focus of these funds is determination of net income, financial position and cash flows ("capital maintenance" focus).

During the course of normal operations, the Town has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying governmental fund and enterprise fund financial statements reflect such transactions as transfers. Non-expendable trust funds reflect these transactions as revenues and expenses.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates. Significant estimates include the allowance for uncollectible receivables.

Total Columns on Combined Financial Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America.

Budget

The Town budget represents departmental appropriations as authorized by annual or special Town meetings. The Selectmen may transfer funds between operating categories, as they deem necessary. The Town adopts its budget under regulations of the New Hampshire Department of Revenue Administration that differ somewhat from accounting principles generally accepted in the United States of America in that the emphasis is on the entire governmental unit rather than on the basis of fund type. Special revenue budgets are adopted only to the extent they interact with the general fund. Budgetary information has only been presented for the general fund, as it is not meaningful for the other funds.

Following is a reconciliation between the budget presented for reporting purposes and the adopted budget:

Total appropriations at March 12, 2002 Town Meeting		\$ 11,164,245
Appropriations from reserved fund balance		71,762
Perspective Differences:		
Water and Sewer		(2,558,121)
Timing Differences:		
Continuing appropriations, January 1, 2002		791,072
Continuing appropriations, December 31, 2002		(789,683)
		<u>\$ 8,679,275</u>

State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the year ended December 31, 2002, the Town applied \$262,000 of its unappropriated fund balance to reduce taxes.

Encumbrance Accounting

Encumbrance accounting, under which purchase orders and other commitments for the expenditure of monies are recorded in order to reserve a portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Encumbrances outstanding at year end are reported as a component of fund balance since they do not constitute expenditures or liabilities. Encumbrances outstanding at December 31, 2002 are detailed by function as follows:

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Reconciliation of Exhibit C to Exhibit B

Amounts recorded as budgetary amounts in the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Budgetary Basis - General Fund (Exhibit C) are reported on the basis of documents submitted to the New Hampshire Department of Revenue Administration. General Fund revenues were adjusted for capital lease proceeds of \$771,130 and expenditures were adjusted as follows:

Expenditures and Transfers (Exhibit B)		\$ 9,305,402
Encumbrances, December 31, 2002		11,506
Encumbrances, December 31, 2001		(53,095)
Capital leases		<u>(771,130)</u>
Expenditures and Transfers (Exhibit C)		<u>\$ 8,492,683</u>

Assets, Liabilities, and Fund Equity

Cash and Cash Equivalents - The Town pools its cash resources for the governmental and proprietary funds. Cash applicable to a particular fund is reflected as an interfund balance. For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of the following:

Cash in money market funds		\$ 251,378
Interfund receivable representing equity in pooled cash:		
Water Enterprise Fund		575,756
Sewer Enterprise Fund		<u>1,192,847</u>
Total Cash and Cash Equivalents, per Exhibit E		<u>\$ 2,019,981</u>

Investments - Investments are stated at their fair value in all funds. Certificates of deposit with a maturity greater than ninety days from the date of issuance are included as investments.

Taxes Receivable - Property taxes levied for 2002 and prior are recorded as receivables, net of a reserve for estimated uncollectibles of \$100,000.

Inventory - Inventory of the proprietary funds is valued at cost.

Property, Plant and Equipment - Property, plant and equipment are valued at cost. The Town uses the straight line method for charging depreciation in the Enterprise Funds. The following are the estimated useful lives used in determining the annual charge for depreciation.

		<u>Years</u>
Water Department:		
Pumping Station, Water Storage and Purification System Structures		10-75
Hydrants and Meters		10-25
Office and Garage Equipment		5-10
Transmission and Distribution Mains		75
Vehicles		5
Sewer Department:		
Treatment Facility and Improvements		20-50
Equipment and Furnishings		10
Vehicles		10

For the year ended December 31, 2002, depreciation expense for the water and sewer funds was \$149,933 and \$518,460, respectively.

The Town capitalizes interest costs during a project's construction period.

Due to Other Governments - At December 31, 2002, the balance of the property tax appropriation due to the Milford School District was \$8,371,641.

Deferred Revenue - The Town has recorded deferred tax revenues of \$346,336 for unredeemed property taxes receivable which are past the statutory time for deeding. These revenues will be recognized as they are received.

Revenues, Expenditures and Expenses

Property Taxes

The Town's property tax was levied on the assessed value listed as of the prior April 1st \$752,293,850 for all real property located within the Town. Taxes were due in two installments on July 1, and December 2. Taxes paid after the due dates accrue interest at 12% per annum. Current collections for the period ended December 31, 2002 were 94.1 % of the tax levy.

The Town collects taxes for the Milford School District and Hillsborough County, both independent governmental units, which are remitted to them as required by law. The Town also collects State of New Hampshire Education taxes, which are remitted to the school districts. Taxes appropriated during the year were \$16,371,641 and \$1,387,269 for the Milford School District and Hillsborough County, respectively. These taxes are not recognized as revenues in these financial statements. The Town bears responsibility for uncollected taxes.

As prescribed by State law, the tax collector obtains tax liens on properties which have unpaid taxes in the year after taxes were due for the amount of unpaid taxes, interest and costs. These priority tax liens accrue interest at 18% per annum. If the property is not redeemed within a two year period, by State statute, the property is to be tax deeded to the Town.

The net 2002 receivables expected to be collected subsequent to March 1, 2003 of \$1,132,794 have been recognized as tax revenue in the General Fund which is not in accordance with accounting principles generally accepted in the United States of America. Town officials have decided that compliance with accounting principles generally accepted in the United States of America (GASB Interpretation 3), which would reduce undesignated General Fund balance from \$1,823,255 to \$690,461, could make these financial

statements misleading, due to the limited sixty day revenue recognition period after year end. This understatement might give the user of these financial statements a misleading impression about the Town's ability to meet its current or future obligations. Under existing State law, the Town will either receive full payment or acquire legal ownership of property in lieu of payment in 2005. Prior history indicates that a substantial portion of overdue taxes is paid before this date.

Accrued Vacation and Sick Leave

The Town permits employees to accumulate a limited amount of earned, but unused, vacation and sick leave that will be paid to employees upon retirement or termination. Employees may accumulate vacation and sick time based upon length of service. Employees are entitled to all accumulated vacation time upon termination or retirement. Employees hired prior to December 1, 1997 are entitled to one third of the accumulated sick time to a maximum of thirty days upon termination or retirement, unless they elect to participate in the new sick leave policy.

All employees hired subsequent to December 1, 1997 and employees hired prior to that date and electing to change their sick leave policy, will receive payment for any unused sick leave hours annually. This payment is based on a sliding percentage of the actual number of sick leave hours used to a maximum of 50% of the unused sick time. Upon retirement after a minimum of 15 years of employment to the Town, employees hired prior to December 31, 1997 are entitled to a payment for 240 hours at their current rate of pay at the time of retirement if they retire prior to December 31, 2004. Employees hired prior to December 31, 1997 and retiring after December 31, 2004 are entitled to a payment for 200 hours.

At December 31, 2002, the total estimated value of accumulated compensated absences is \$181,685. The current portion of \$56,000 has been recognized in the general fund and the long-term portion has been recorded in the General Long-term Debt Account Group and the enterprise funds.

NOTE 2--CASH AND INVESTMENTS

The Town's deposit and investment policies are governed by New Hampshire state law (RSA 41:29) and written policies adopted by the Board of Selectmen. The policy for governmental fund types requires that deposits and investments in excess of daily needs be collateralized with United States Government or Agency securities. These securities are held by a third party custodial safekeeping arrangement in the Town of Milford's name. Responsibility for the investments of the Trust Funds is with the Board of Trustees of Trust Funds, who have employed professional banking assistance in accordance with New Hampshire state law (RSA 31:38a).

The NHPDIP is not registered with the United States Securities and Exchange Commission as an investment company. The NHPDIP was created by state law and is administered by a public body of state, local and banking officials.

At year end, the carrying amount of the Town's deposits was \$8,202,091 and the bank balance was \$8,657,196. All of the bank balance was covered by federal depository insurance or collateralized with securities held by an agent in the Town's name.

The Town's investments are categorized to provide an indication of the level of risk assumed by the Town of Milford. Category 1 includes investments that are insured or registered or for which the securities are held by the Town or its agent in the Town's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Town's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Town's name.

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Investments in money market funds and mutual funds are not investment securities and, as such, are not categorized by for custodial credit risk.

At year end, \$517,665 of the Town's cash and investment deposits was restricted for the payment of escrow deposits for various projects.

NOTE 3--PROPERTY, PLANT AND EQUIPMENT - PROPRIETARY FUNDS

The following is a summary of changes in the Proprietary Fund property, plant and equipment for the year ended December 31, 2002:

	Balance			Balance
	<u>1/1/2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2002</u>
<u>Water Fund</u>				
Land	\$ 167,111	\$ -	\$ -	\$ 167,111
Buildings and improvements	491,404	34,296	22,567	503,133
Machinery	<u>5,814,876</u>	<u>52,127</u>	<u>67,727</u>	<u>5,799,276</u>
	6,473,391	86,423	90,294	6,469,520
Construction in progress		11,608		11,608
Less: Accumulated depreciation	<u>(1,558,422)</u>	<u>(149,933)</u>	<u>(90,294)</u>	<u>(1,618,061)</u>
	<u>\$ 4,914,969</u>	<u>\$ (51,902)</u>	<u>\$ -</u>	<u>\$ 4,863,067</u>
<u>Sewer Fund</u>				
Land	\$ 208,424	\$ 4,750	\$ 80,000	\$ 133,174
Buildings and improvements	22,831,193	72,966		22,904,159
Machinery and equipment	<u>446,783</u>	<u>95,739</u>	<u>65,876</u>	<u>476,646</u>
	23,486,400	173,455	145,876	23,513,979
Construction in progress		9,077		9,077
Less: Accumulated depreciation	<u>(8,155,613)</u>	<u>(518,460)</u>	<u>(143,835)</u>	<u>(8,530,238)</u>
	<u>\$ 15,330,787</u>	<u>\$ (335,928)</u>	<u>\$ 2,041</u>	<u>\$ 14,992,818</u>

<u>Totals</u>				
Land	\$ 375,535	\$ 4,750	\$ 80,000	\$ 300,285
Buildings and improvements	23,322,597	107,262	22,567	23,407,292
Machinery and equipment	<u>6,261,659</u>	<u>147,866</u>	<u>133,603</u>	<u>6,275,922</u>
	29,959,791	259,878	156,170	29,983,499
Construction in progress	-	20,685	-	20,685
Less: Accumulated depreciation	<u>(9,714,035)</u>	<u>(668,393)</u>	<u>(234,129)</u>	<u>(10,148,299)</u>
	<u>\$ 20,245,756</u>	<u>\$ (387,830)</u>	<u>\$ (77,959)</u>	<u>\$ 19,855,885</u>

The assets acquired through capital leases are as follows:

		<u>Sewer Fund</u>
Machinery and equipment		\$ 230,653
Less: Accumulated depreciation		(55,393)
		<u>\$ 175,260</u>

NOTE 4--PENSION PLAN

New Hampshire Retirement System

Plan Description

The Town contributes to the New Hampshire Retirement System (NHRS), a cost-sharing multiple-employer defined benefit pension plan administered by the NHRS Board of Trustees. The plan provides service, disability, death and vested retirement allowances to plan members and beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State legislature. The NHRS issues a publicly available financial report that includes financial statements and required supplementary information for NHRS. That report may be obtained by writing to New Hampshire Retirement System, 4 Chenell Drive, Concord, New Hampshire 03301.

Funding Policy

Covered public safety and general employees are required to contribute 9.3% or 5.0% of their covered salary, respectively, and the Town is required to contribute at an actuarially determined rate. The Town's contribution rates for the covered payroll of police, fire, and general employees were 5.33%, 6.60% and 4.14%, respectively. The Town contributes 65% of the employer cost for public safety officers employed by the Town and the State contributes the remaining 35% of the employer cost. The Town contributes 100% of the employer cost for general employees of the Town. On-behalf fringe benefits (GASB #24) contributed by the State of New Hampshire have not been recognized, as amounts are not material to the financial statements.

Under RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The Town's contributions to the NHRS for the years ending December 31, 2002, 2001, and 2000 were \$179,106, \$169,050, and \$155,257, respectively, equal to the required contributions for each year.

Deferred Compensation Plan

The Town sponsors three voluntary deferred compensation plans for all employees in accordance with Section 457 of the Internal Revenue Code. The plans permit participants to defer a portion of their salary that is not available to them until termination, retirement, death or unforeseen emergency.

NOTE 5--NET WORKING CAPITAL

The net working capital for the Water Fund and Sewer Fund as of December 31, 2002 is \$553,407 and \$1,094,254, respectively.

NOTE 6--CHANGES IN LONG-TERM DEBT

The following is a summary of debt transactions of the Town of Milford for the year ended December 31, 2002:

	Balance	Obligations	Obligations	Balance
Type	1/1/2002	Issued	Retired	12/31/2002
General Obligation Debt:				
General	\$ 3,910,000		\$ 385,000	\$ 3,525,000
Water	760,000		65,000	695,000
Sewer	769,500		118,500	651,000
Capital Leases:				
General	73,285	\$ 557,514	34,003	596,796
Sewer	81,443	38,931	24,685	95,689
Total	<u>\$ 5,594,228</u>	<u>\$ 596,445</u>	<u>\$ 627,188</u>	<u>\$ 5,563,485</u>

Bonds and notes payable at December 31, 2002 are comprised of the following individual issues:

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General Obligation Bonds are direct obligations of the Town, for which its full faith and credit are pledged, and are payable from taxes levied on all taxable property located within the Town.

The State of New Hampshire annually reimburses the Town for a portion of its Sewer related debt service. During 2002, the reimbursed amount was \$167,936.

Water and Sewer obligations are funded from water and sewer charges. However, the debt is general obligation debt backed by the full faith and credit of the Town.

Capital Lease Obligations - represent lease agreements entered into for the financing of equipment acquisitions. These contracts are subject to cancellation should funds not be appropriated to meet payment obligations. Amounts are annually budgeted in applicable departments. Following are individual capital leases at December 31, 2002.

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The annual requirements to amortize all debt outstanding as of December 31, 2002, including interest of \$1,458,946 are as follows:

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Authorized and Unissued Debt – The following debt was authorized and unissued as of December 31, 2002:

	Total
Description	Authorization
Milford District Court Facility	<u>\$ 2,500,000</u>

NOTE 7--INTERFUND RECEIVABLES/PAYABLES

Interfund receivables/payables at December 31, 2002 were:

<u>Fund</u>	Interfund <u>Receivables</u>	Interfund <u>Payables</u>
General Fund	\$ 107,717	\$ 2,074,052
Special Revenue Funds:		
Wadleigh Memorial Library		19,124
Fire Alarm Fund	41,967	
Recreation Fund	19,186	
Miscellaneous Grants	142,637	
Conservation Commission	29,897	
Enterprise Funds:		
Water Fund	575,756	
Sewer Fund	1,192,847	
Trust and Agency Funds:		
Non-expendable Trust Funds		16,831
	<u>\$ 2,110,007</u>	<u>\$ 2,110,007</u>

NOTE 8--CONTRIBUTED CAPITAL - PROPRIETARY FUNDS

Changes in the contributed capital accounts in the Water and Sewer Funds are summarized as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Balance, January 1, 2002	\$ 2,667,027	\$ 12,749,240	\$ 15,416,267
Contributions		5,174	5,174
Less Amortization	(44,450)	(401,560)	(446,010)
Balance, December 31, 2002	<u>\$ 2,622,577</u>	<u>\$ 12,352,854</u>	<u>\$ 14,975,431</u>

NOTE 9--APPROPRIATED RETAINED EARNINGS

At December 31, 2002 there were outstanding contracts in the Water and Sewer funds of \$80,006 and \$13,184, respectively.

NOTE 10--FUND BALANCE - RESERVED

Non-Expendable Trust Funds

The principal of all non-expendable trust funds is restricted by law or specific terms of individual bequests, in that only income earned may be expended. Principal and income balances at December 31, 2002 are:

	<u>Principal</u>	<u>Income</u>	<u>Total</u>
Cemetery Funds	\$ 457,985		\$ 457,985
Library Funds	269,809	\$ 4,869	274,678
School	1,492,732	94,152	1,586,884
Parks	79,792	13,195	92,987
Town	207,255	17,984	225,239
	<u>\$ 2,507,573</u>	<u>\$ 130,200</u>	<u>\$ 2,637,773</u>

NOTE 11--DESIGNATED FOR FUTURE YEARS' EXPENDITURES

General Fund

Appropriations for certain projects and specific items not fully expended at year end are carried forward as continuing appropriations to the next year in which they supplement the appropriations of that year. Following are continuing appropriations at December 31, 2002:

Union Street drainage		\$ 720,000
Heritage commission		1,000
Finance/admin software		5,569
Fire department radios		60,000
Fire pumper truck		2,943
Dump truck with plow & sander		<u>171</u>
		789,683
Less revenues not susceptible to accrual:		
Union Street grant		(576,000)
Capital reserve transfer		<u>(127,000)</u>
		<u>\$ 86,683</u>

Special Revenue Funds

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Expendable Trust Funds

Expendable Trust Funds balances designated for subsequent years' expenditures are as follows:

Capital Reserve Funds:		
Ambulance service		\$ 12,403
Fire department		37,463
Road improvement		96,215
Osgood Pond		<u>86,381</u>
Total Capital Reserve Funds		232,462
Other Expendable Trust Funds:		
Wadleigh Memorial Library Fund		479,392
Riverside Cemetery Lot Fund		<u>23,206</u>
		<u>\$ 735,060</u>

NOTE 12--COMMITMENTS AND CONTINGENCIES

The Town has the following purchase commitments at December 31, 2002:

Water Supply Contract

On March 21, 2002, the Town of Milford entered into an agreement with Pennichuck Water Works, Inc. for supplying water. The term of the agreement is for 20 years with

minimum payments of \$81,000 per year. Monthly payments commenced April 1, 2002. Each year's appropriation is expected to be made at the Town meeting.

Sanitation Contract

On July 1, 1997, the Town of Milford entered into a long-term contract with an independent company for the disposal of solid waste from the transfer station until June 30, 2003. Terms of the agreement include a disposal rate per ton, adjusted annually for CPI and fuel adjustment. The estimated disposal per year is 4,500 tons. For the year ended December 31, 2002, the Town expended \$552,766 under the terms of the agreement. Each year's appropriation is expected to be made at the Town meeting.

NOTE 13--MILFORD AREA COMMUNICATION CENTER

The Town of Milford is a member of the Milford Area Communication Center. This is a joint venture with five neighboring towns to provide communication dispatch services. The Center is managed by board members representing the participating towns. The Town does not exercise any control over the budgeting and financing of the Center's activities. Financial statements are available from the Milford Area Communication Center.

The intermunicipal agreement calls for sharing of budgeted expenses in proportion to population. Milford's share for 2002 amounted to 39.93%. The Center rents space in the Milford Town Hall for \$3,000 per year.

NOTE 14--RECLASSIFICATION OF FUND BALANCE

During the year, it was determined that the Marchesi School Trust, previously reported as a agency fund, should be accounted for as a non-expendable trust fund. The fund balance of \$249,860 was reclassified from the Agency Funds to the Non-expendable Trust Funds.

NOTE 15--PERFORMANCE DEPOSITS

The Town holds letters of credit and performance bonds from developers until projects have been completed in accordance with Town standards. These letters of credit and bonds are not included as part of these financial statements. At December 31, 2002, the Town held performance deposits for \$1,242,324.

NOTE 16--CONTINGENT LIABILITIES

Litigation

There are various claims and suits pending against the Town that arise out of the normal course of activities. In the opinion of legal counsel and management, any potential claims against the Town, which are not covered by insurance, would not have a material effect on the Town's financial position.

NOTE 17--GASB STATEMENT NO. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. For the first time, the financial statements will include a Management Discussion and Analysis (MD&A) section providing an analysis of the Town's overall financial position and results of operations. Also, there will be financial statements prepared using full accrual accounting for all of the Town's activities, including infrastructure. The fund financial statements will focus on the major funds.

The general provisions of GASB Statement No. 34 must be implemented by the Town of Milford no later than the year ending December 31, 2004. The retroactive reporting of infrastructure is encouraged, but is not required.

The Town plans to implement the general provisions of the Statement in the year ending December 31, 2004.